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 RUEHML/AMEMBASSY MANILA 6921
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 RUEHIN/AIT TAIPEI
 RUHQHQA/CINCPAC HONOLULU HI
 RUFHNA/USMISSION USNATO 1788
 RUEHCR/AMCONSUL GUANGZHOU 1195
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PARIS FOR DECD

E.O. 12356: DECL: OADR
 TAGS: ECON, EFIN, PINR, CH, ETRD
 SUBJECT: BEIJING MINISTERIAL RESHUFFLE PUTS CHEN
 MUHUA AT THE PEOPLE'S BANK OF CHINA

REF: 84 BEIJING 19018

1. CONFIDENTIAL- ENTIRE TEXT.
 2. SUMMARY: ALTERNATE POLITBURO MEMBER AND FORMER
 MINISTER OF FOREIGN ECONOMIC RELATIONS AND TRADE CHEN
 MUHUA HAS BEEN MOVED TO THE PRESIDENCY OF THE
 PEOPLE'S BANK OF CHINA. THIS SWITCH IS PART OF A
 MINISTERIAL RESHUFFLE INVOLVING THREE KEY GOVERN-
 MENT TRADE AND FINANCIAL ORGANIZATIONS. OUR INITIAL
 REACTION IS THAT THE MOVES ARE INTENDED TO STRENGTHEN THE
 MANAGEMENT OF ECONOMIC REFORM, AT A TIME WHEN SENSITIVE
 STEPS IN PRICE AND WAGE REFORM ARE CONTEMPLATED, BY
 ALLOCATING POLITICAL MUSCLE AND FINANCIAL EXPERTISE
 WHERE THEY ARE NEEDED MOST. END SUMMARY.

3. THE STANDING COMMITTEE OF THE NATIONAL PEOPLE'S
 CONGRESS MARCH 22 ANNOUNCED A MINISTERIAL-LEVEL
 LEADERSHIP RESHUFFLE IN THREE GOVERNMENT TRADE AND
 FINANCIAL ORGANIZATIONS WHICH PLAY KEY ROLES IN THE
 CURRENT ECONOMIC REFORM. AT THE MINISTRY OF FOREIGN

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ECONOMIC RELATIONS AND TRADE (MOFERT), MINISTER CHEN MUHUA HAS BEEN REPLACED BY VICE-MINISTER ZHENG TUOBIN. CHEN HAS BECOME THE NEW PRESIDENT OF THE PEOPLE'S BANK OF CHINA (PBOC), REPLACING LU PEIJIAN. LU IS NOW AUDITOR-GENERAL, REPLACING YU MINGTAO, WHOSE NEW POSITION, IF ANY, WAS NOT ANNOUNCED. OUR INITIAL REACTION IS THAT THESE MOVES ARE INTENDED TO STRENGTHEN THE MANAGEMENT OF THE ECONOMIC REFORMS BY ALLOCATING POLITICAL MUSCLE AND TECHNICAL EXPERTISE WHERE THEY ARE NEEDED MOST.

4. ALTERNATE POLITBURO MEMBER CHEN MUHUA'S SWITCH IS THE MOST INTERESTING. WE BELIEVE IT REPRESENTS A LATERAL MOVE FROM ONE KEY ECONOMIC PORTFOLIO TO ANOTHER. A CENTRAL PLANK IN THE ECONOMIC REFORM PROGRAM IS TO STRENGTHEN THE ROLE OF THE BANKING SYSTEM, HEADED BY PBOC. IT WILL OVERSEE CREDIT POLICY, ONE OF THE KEY "ECONOMIC LEVERS", ALONG WITH TAXES AND PRICES, WHICH THE GOVERNMENT WANTS TO USE TO GUIDE ECONOMIC ACTIVITY, REPLACING EXCESSIVE RELIANCE ON ADMINISTRATIVE MEASURES SUCH AS THE PLAN-NING SYSTEM. CONTROL OF CREDIT IS PARTICULARLY IMPOR-TANT NOW SINCE ITS EXPANSION WILL ADD TO INFLATIONARY PRESSURES AND COMPLICATE PROGRESS ON BOTH WAGE AND PRICE REFORM. WE HAVE SEEN NO EVIDENCE THAT CHEN MUHUA HAS SOPHISTICATED FINANCIAL OR FISCAL SKILLS. HOWEVER, SHE APPARENTLY POSSESSES CONSIDERABLE POLITICAL CLOUT, HAVING REMAINED AN ALTERNATE POLIT-BURO MEMBER SINCE 1977. IT MAY BE THAT THE LEADER-SHIP IS COUNTING ON HER POLITICAL MUSCLE TO ENHANCE THE PBOC'S ECONOMIC ROLE. ALSO, THE LEADERSHIP MAY HOPE HER REPORTED TOUGHNESS WILL BE USEFUL IN HELPING TO DEAL WITH POSSIBLE PROBLEMS AT THE BANK OF CHINA (BOC), OR IN THE PBOC/BOC RELATIONSHIP (SEPTTEL).

5. THERE HAVE BEEN PERSISTENT RUMORS THAT CHEN HAS NOT BEEN A STRONG SUPPORTER OF THE ECONOMIC REFORM PROGRAM, AND THEREFORE MIGHT BE REMOVED OR AT LEAST DEMOTED. FOR THE REASONS ABOVE, WE DO NOT THINK THIS MOVE REPRESENTS A DEMOTION. WE CONCLUDE THAT WHETHER OR NOT IN THE PAST SHE WAS SKEPTICAL OF THE REFORMS, OR WORSE, SHE NOW APPEARS TO HAVE CLIMBED ON THE BANDWAGON. THIS CONCLUSION TALLIES WITH THE IMPLICATION OF OUR EARLIER REPORT, BASED ON AN EASTERN EUROPEAN SOURCE, THAT SHE IS A MEMBER OF DENG'S REFORM CAMP (REFTEL A).

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6. ZHENG TUOBIN WAS MINISTER OF TRADE BEFORE THAT MINISTRY WAS FOLDED INTO MOFERT IN MARCH, 1982. THERE WAS CONSIDERABLE SPECULATION AT THAT TIME THAT HE WOULD HEAD MOFERT, AND THAT IN FACT THE REFORMERS PREFERRED HIM OVER CHEN MUHUA, WHO GOT THE NOD. IN ANY CASE, HE IS A COMPETENT TRADE SPECIALIST WHO WILL HAVE A FULL PLATE IMPLEMENTING THIS YEAR'S PROMISED REFORM OF THE FOREIGN TRADE SYSTEM.

7. LU PEIJIAN IS A FINANCIAL SPECIALIST OF LONG STANDING. HIS NEW POSITION OF AUDITOR-GENERAL, EVEN THOUGH IT RANKS BELOW THE PRESIDENT OF PBOC, IS BY NO MEANS UNIMPORTANT. AS ENTERPRISES ENJOY GREATER FINANCIAL AUTONOMY THROUGH REFORM, THE AUDITING ADMINISTRATION IS CHARGED WITH THE DIFFICULT TASK OF INSURING THAT THEY DO NOT SHORT-CHANGE THE STATE TREASURY. THE RECENT ENACTMENT OF A NATIONAL ACCOUNT-

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ING LAW UNDERSCORES THE IMPORTANCE ATTACHED TO THIS WORK
THUS, WHILE THE GOVERNMENT MAY HAVE CONCLUDED THAT IT
NEEDED SOMEONE WITH CHEN MUHUA'S POLITICAL WEIGHT AT
THE PBOC, IT HAS FOUND A WAY TO CONTINUE TO USEFULLY
TAP LU'S FINANCIAL EXPERTISE.

8. YU MINGTAO WAS GOVERNOR OF SHAANXI UNTIL 1983.
AFTER A BRIEF INTERLUDE IN HENAN, HE CAME TO
BEIJING THE SAME YEAR TO HEAD THE NEWLY ESTABLISHED
AUDITING ADMINISTRATION. HE JUST FINISHED PRESIDING
OVER A NATIONAL AUDITING CONFERENCE ON TUESDAY. THIS
HINTS, THOUGH NOT CONCLUSIVELY, THAT HE IS NOT
LEAVING IN DISFAVOR, SINCE PRESUMEABLY HE WOULD
HAVE BEEN REPLACED BEFORE THE CONFERENCE. HE MAY
THEREFORE BE GIVEN ANOTHER RESPONSIBLE POST.

HUMMEL

END OF MESSAGE

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